

**EAST RAND WATER CARE
COMPANY (ERWAT) NPC**

2015/16 ANNUAL REPORT



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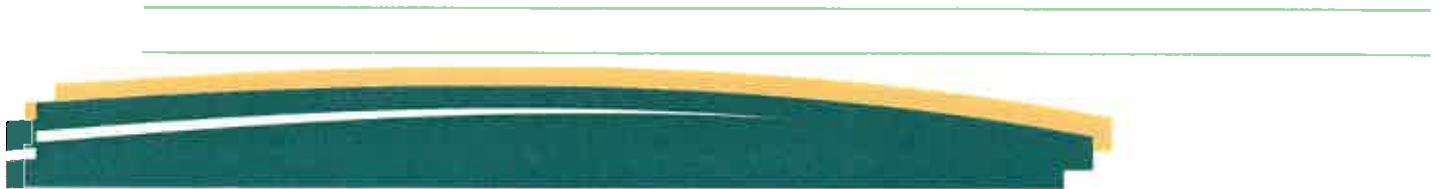
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CHAPTER 1 – CHAIRPERSON'S FOREWORD AND EXECUTIVE SUMMARY

COMPONENT A: CHAIRPERSON'S FOREWORD

CHAIRPERSON'S FOREWORD

a. Vision:

ERWAT was established in 1992 as a Section 21 company. Its shareholders are the Ekurhuleni Metropolitan Municipality (majority shareholder), Johannesburg Metropolitan Municipality and Lesedi Local Municipality. ERWAT operates 19 waste water treatment works and each works is issued with a Water Use License (WUL) by the Department of Water Affairs (DWS). Each WUL contains the final effluent water quality standards the works must comply with.

ERWAT provides a proficient wastewater treatment service to approximately 2 000 industries and more than 3.5 million people who have access to sanitation. It is currently the custodian of 19 wastewater treatment works, treating a combined capacity of some 737 mega litres (Ml) of wastewater, both domestic and industrial, per day. The smallest plant treats some 0.5 Ml per day, while the largest plant treats up to 155 Ml of wastewater per day. Most of ERWAT's operations are located in the Ekurhuleni Metropolitan Municipality (EMM) in the eastern parts of Gauteng.

b. Key Policy Developments:

The legislative framework within which water supply and sanitation services take place is mainly provided by the Water Services Act (Act 108 of 1997) (WSA). The Water Services Act derives its mandate from Section 27 of the Bill of Rights in the Constitution. This section of the constitution provides, among other rights, that everyone has the right to have access to sufficient food and water. One of the main objectives of the Water Services Act is thus, to provide for the right of access to basic water supply and to basic sanitation.

ERWAT strives to keep abreast of the latest in wastewater research management through regular liaison and contact with other institutions, such as the Water Research Commission (WRC), water institutions, academia, as well as government departments such as the Department of Water Affairs (DWA). ERWAT is a member of the International Water Association (IWA) and a patron member of the Water Institute of South Africa (WISA). ERWAT has also entered into an agreement with the University of Stellenbosch where ERWAT will support a Chair in Wastewater studies. Comment on the major successes of the year included and provide an indication of challenges overcome.

c. Key Service Delivery Improvements:

ERWAT is taking the strategic direction of our major shareholder, the Ekurhuleni Metropolitan Municipality (EMM), into consideration and the company redefined its Facilities Development Plan,

(FDP) 2028 model, in alignment with EMM's planning for the future of the region. It is pivotal for the entity to achieve Green Drop status for all the waste water treatment plants. Secondly, we are striving to increase our external business to a turnover of R200m per annum by 2019. This will enable us to keep increases in waste water purification costs to acceptable levels.

One of ERWAT's biggest challenges remains the financing of new extensions. The success of future projects, as with those of the past, will continue to depend on the availability of funding. The role that our parent municipality, EMM, will play in securing future funding will remain crucial.

It is worth to highlight that the majority of the plants recorded 87% achievement in terms of the compliance to the Green Drop Status, and this represent a significant improvement as compared to the previous financial year. Revenue generated from external businesses was significantly higher at R109,8 million as compared to R71 million recorded during 2014/15 financial year.

d. Public Participation:

ERWAT participates through EMM's department of Water and Sanitation, as the department in which the entity is currently formed under. All the comments and views of the community received during this process are channelled through to ERWAT.

e. Future Actions:

ERWAT's success is a result of dedication, focus and concerted efforts of many role-players. Therefore, I would like to express my sincere appreciation to my colleagues on the Board of Directors as well as the Managing Director, Executive Management and staff. The strategic direction and unwavering support of Ekurhuleni Metropolitan Municipality (EMM) made it possible for ERWAT to achieve its strategic and operational objectives.

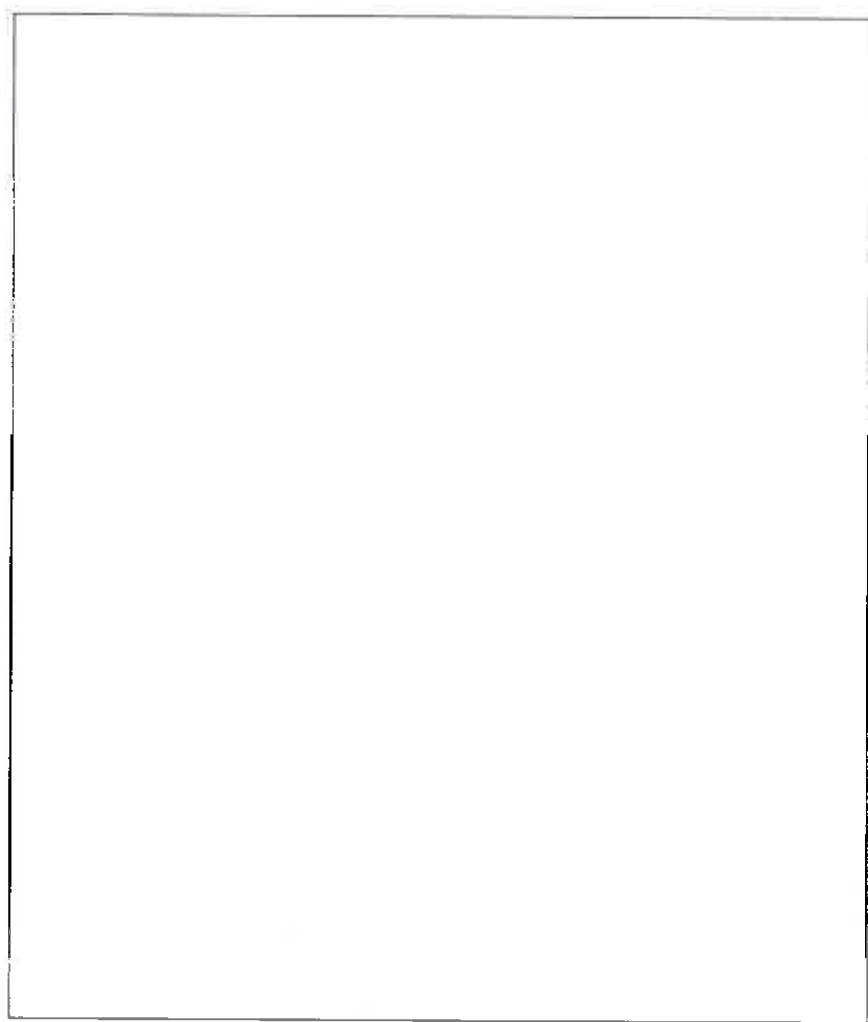
f. Conclusion:

With the appointment of the new Board of Directors (BoD) and the increase in the number of members thereto, the entity now has four (4) committees which will assist with close oversight in strategic and critical areas where the entity was challenged.

(Signed by :) _____

Chairperson of the Board





COMPONENT B: EXECUTIVE SUMMARY

1.1. ACTING MANAGING DIRECTOR'S OVERVIEW

During the period under review, the entity has been able to strengthen its position with various stakeholders. Our ability to meet the expectations of a broad and multicultural customer base often required innovative and continuous inventive approaches when interacting and executing our activities. We cemented our performance by ensuring that all the objectives in our corporate scorecard were met and exceeded our expectations.

The entity always factored its mandate and the aspirations of the Shareholder into the strategic plans. Operations were very effective in implementing the key deliverables defined in the strategic plan and compliance of the plants to the green drop status. The momentum set in the previous financial year increased during this period and resulted in the entity, once again, delivering on those programmes that served as the mayoral priorities.

The favourable financial position we have achieved will strengthen our position going forward. In spite of the portfolio growth and disproportionate funding in relation to the portfolio of services, we have been able to cement our position through increased productivity and efficiencies. All departments comprising, operations, human resources, technical, operations, laboratory services and finance, continued to perform at a high standard collectively.

With constant guidance and vigilance, the Board of Directors, through the EMM audit committee, dedicated itself to ensuring that all the issues that were raised by the auditor general in last year's audit were rectified. Processes were put in place to ensure that the entity's internal controls were above board and the entity currently performs inventory stock counts.

T 1.1.1

1.2 ENTITIES FUNCTIONS, POPULATION AND ENVIRONMENTAL OVERVIEW

INTRODUCTION TO BACKGROUND DATA

Please refer to company profile.

T 1.2.1

1.3 SERVICE DELIVERY OVERVIEW

SERVICE DELIVERY INTRODUCTION

Please refer to Chapter 3 of the Annual Report T 1.3.1

1.4 FINANCIAL HEALTH OVERVIEW

FINANCIAL OVERVIEW

The entity's financial review is premised on the approved 2015/16 business plan and budget. The entity **continued to perform well in mostly its financial indicators whereby a total revenue of R575,5 million** for the period ending June 2015/16 was recorded which represents a 9,5% increase as compared to the previous financial year.

The entity ended the year with a net surplus of R113.3 million as compared to the previous financial year's surplus of R108.3 million. The increase in the net surplus is mainly attributable to an increase in developmental contributions received coupled with a significant increase in other income received from external commercial. Even though the revenue has increased with a small margin, operating expenditure is slightly higher than the approved budget. Operating expenditure for the year was recorded at R675.5 million against a budgeted expenditure of R705.7. Although Finance charges and Depreciation increased significantly this was offset by savings in Employee costs, Materials and bulk purchases and other expenditure resulting in 4.3% saving against budget.

FINANCIAL ANALYSIS AND RATIO COMPARISON

The strength of the balance sheet of ERWAT remains pivotal to the continued financial sustainability of the entity. It is reported that the entity is a going concern with accumulated surplus of R1,34 billion with total assets exceeding total liability by the same amount.

SOLVENCY

The increase in long term liabilities negatively impacted ERWAT's solvency ratio. It declined from 0.28 in 2014/15 to 0.21 in 2015/16. This was however necessary to fund the R500 million project to increase capacity at the Welgedacht Wastewater Care Works. Unless a greater portion of future capacity expansions can be funded from Grant funding the solvency ratio will decline further in the foreseeable future.

LIQUIDITY

ERWAT's current ratio improved from 2.26:1 in 2014/15 to 2.41:1 in 2015/16. This was however, mainly due to the entity having challenges in implementing the capital programme for the year under review.

T 1.4.1

DETAILS	ACTUAL 2014/2015 R'000	ORIGINAL BUDGET 2015/2016 R'000	ADJUSTMENT BUDGET R'000	ACTUAL 2015/2016 R'000
INCOME				
Grants	50 000	50 000	50 000	50 000
User Charges (Service)	525 600	575 533	575 533	575 533
Other	93 008	130 144	130 144	163 076
Sub Total	668 608	755 677	755 677	788 775
Expenses	560 280	755 677	755 677	675 521
Surplus	108 328	0	0	113 254
				T 1.4.2

Operating ratios		
Detail		
%		
Employee costs		34.39
Repairs and maintenance		15.34
Finance Charges		8.06
		T 1.4.3

COMMENT ON OPERATING RATIOS:

The main cost driver is the employee costs that are reported at 34.39%. Repairs and maintenance are recorded at 15,34 % with Finance Charges recorded at 8.06%

T 1.4.3

Total Capital Expenditure: Year 2013/2014 to 2015/2016			
Detail			
	Year 2013/14	Year 2014/15	Year 2015/16
Original Budget	R301,9m	R396,7m	R397.4m
Adjustment Budget	R301,9m	R396,7m	R397.4m
Actual	R309,7m	R308,6m	R242.3
% Capital Spent based on Original Budget	102,6%	77,79%	61%
% Capital Spent based on Adjustment Budget	102,6%	77,79%	61%

1.5 ORGANISATIONAL DEVELOPMENT OVERVIEW

ORGANISATIONAL DEVELOPMENT PERFORMANCE

The business context of the entity offers challenges to which the organisation is on course to respond to. The entity continues to strive to attract competent and driven talent that will respond to the business challenges without necessarily being confined to their hierarchies.

These talents are specifically in the Audit and Risk Department and Operations Department. The Human Resources department ensures that the entity delivers on what it is known for with sufficient talent and without unnecessary work stoppages.

1.6 AUDITOR GENERAL REPORT

AUDITOR GENERAL REPORT: 2014/15 (2015/16)

Auditor General (AG) issued an unqualified audit opinion for 2014/2015 with emphasis of matter issues. The findings contained in both the audit report and final management report were addressed by way of an Operation Clean Audit (OPCA) plan. This was developed to address these findings in order to improve the entities systems and prevent the recurrence going forward. The majority of findings were dealt with successfully and progress has been made in addressing the rest.



1.7 STATUTORY ANNUAL REPORT PROCESS

No	Activity	Time frame
1	Consideration of next financial year's Budget and IDP process plan. Except for the legislative content, the process plan should confirm in-year reporting formats to ensure that reporting and monitoring feeds seamlessly into the Annual Report process at the end of the Budget/IDP implementation period	July
2	Implementation and monitoring of approved Budget and IDP commences (In-year financial reporting).	
3	Finalise the 4th quarter Report for previous financial year	
4	Submit draft year 0 Annual Report to Internal Audit and Auditor-General	
5	Municipal entities submit draft annual reports to MM	
6	Audit/Performance committee considers draft Annual Report of municipality and entities (where relevant)	August
8	Mayor tables the unaudited Annual Report	
9	Municipality submits draft Annual Report including consolidated annual financial statements and performance report to Auditor General	
10	Annual Performance Report as submitted to Auditor General to be provided as input to the IDP Analysis Phase	
11	Auditor General audits Annual Report including consolidated Annual Financial Statements and Performance data	September - October
12	Municipalities receive and start to address the Auditor General's comments	November
13	Mayor tables Annual Report and audited Financial Statements to Council complete with the Auditor-General's Report	
14	Audited Annual Report is made public and representation is invited	
15	Oversight Committee assesses Annual Report	
16	Council adopts Oversight report	December
17	Oversight report is made public	
18	Oversight report is submitted to relevant provincial councils	January
19	Commencement of draft Budget/ IDP finalisation for next financial year. Annual Report and Oversight Reports to be used as input	

COMMENT ON THE ANNUAL REPORT PROCESS:

The Municipal entity has improved on compliance to MFMA Circular No 63 on an incremental basis. The Annual Report will therefore be tabled to the relevant EMM department with apposite authority to review the report on whether it succinctly follows the broad guidelines of the template provided by National Treasury (properly taking into account the unique nature of the entity and in the main, whether the quality of information provided herein provides a genuine picture of the state of the entity.



CHAPTER 2 – GOVERNANCE

INTRODUCTION TO GOVERNANCE

The board provides effective leadership based on a principled foundation and the entity subscribes to high ethical standards. Responsible leadership, characterized by the values of responsibility, accountability, fairness and transparency, has been a defining characteristic of the entity since the company's establishment in 1992.

The fundamental objective has always been to do business ethically while building a sustainable company that recognizes the short- and long-term impact of its activities on the economy, society and the environment. In its deliberations, decisions and actions, the board is sensitive to the legitimate interests and expectations of the company's stakeholders.

COMPONENT A: POLITICAL AND ADMINISTRATIVE GOVERNANCE

INTRODUCTION TO POLITICAL AND ADMINISTRATIVE GOVERNANCE

The mandate of Municipal entity finds expression on the principles championed by the National Department of Water and Sanitation and found in the operational and development objectives of the parent municipality as detailed in the SDA, and further in the Entities business plan, which relates directly to the IDP, SDBIP, MTREF, and adjustment budgets.

2.1 POLITICAL GOVERNANCE

INTRODUCTION TO POLITICAL GOVERNANCE

The entity applies the governance principles contained in King Report for Corporate Governance for South Africa 2009 (King III) and continues to further entrench and strengthen recommended practices in our governance structures, systems, processes and procedures. The Board of Directors and Executives recognise and are committed to the principles of openness, integrity and accountability advocated by the King III. Through this process, shareholders and other stakeholders may derive assurance that the entity is being ethically managed according to prudently determined risk parameters in compliance with generally accepted corporate practices. Monitoring the entity's compliance with King III forms part of the mandate of the audit committee. The entity has complied with the Code in all respect during the year under review.

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The Board of Directors have incorporated the City of Ekurhuleni's Corporate Governance Protocol in its Board Charter, which inter alia regulates its relationship with the City of Ekurhuleni as its sole member and parent municipality in the interest of good corporate governance and good ethics.

The Protocol is premised on the principles enunciated in the King III. The Company steadfastly consolidated its position in respect of adherence to the King III report on Corporate Governance. The entity practices are, in most material instances, in line with the principles set out in the King III Report. Ongoing steps are however taken to align practices with the Report's recommendations and the Board continually reviews our progress to ensure that we improve our Corporate Governance. During the year under review the Company entrenched its risk management reviews and reporting and compliance assessments were conducted in terms of the Companies Act and the Municipal Finance Management Act (MFMA). An annual report for the previous year was effectively completed in accordance with the terms of section 121 of the Municipal Finance Management Act.

The Board of Directors of ERWAT as stipulated in the King Code III and the Code of Conduct for Directors referred to in section 93L of the Municipal Systems Act, 2000 as amended.

BOARD OF DIRECTORS AND ITS SUB- COMMITTEE'S

BOARD OF DIRECTORS

ERWAT Board of Directors consists of one (1) executive and eight (8) non-executive Directors. The board meets regularly, at least quarterly and retains full control over ERWAT. The Board remains accountable to Ekurhuleni Metropolitan Municipality, the majority shareholder with a 97% shareholding in ERWAT and its stakeholders. The directors have a collective responsibility to provide effective corporate governance that involves a set of relationships between Ekurhuleni Metropolitan Municipality (EMM), ERWAT and other relevant stakeholder which include:

- (a) Setting strategic direction and goals of ERWAT and monitoring management's implementation of that strategy;
- (b) Appointing such committees of ERWAT as may be appropriate to assist in the discharge of its responsibilities and to determine their responsibilities;
- (c) Ensuring that procedures and practices are in place that protects ERWAT's assets and reputation;
- (d) Monitoring financial outcomes and the integrity of reporting, in particular approving annual budgets and longer-term strategic and business plans;

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- (e) Ensuring that effective audit, and compliance systems are in place to protect the ERWAT's assets and to minimise the possibility of ERWAT operating beyond legal requirements or beyond acceptable risk parameters;
- (f) Monitoring compliance with regulatory requirements and ethical standards.

ERWAT Board of Directors

Board Member	Capacity Executive / Non- Executive Director	Race	Gender	Designation
LJ Mojapelo	Non-Executive	Black	Male	Chairperson of the Board
CC Cornish	Non-Executive	Coloured	Male	Finance Committee Chairperson
LN Bokaba	Non-Executive	Black	Male	
Dr KC Wall**	Non-Executive	White	Male	Operations Committee Chairperson
Adv MM Mochatsi	Non-Executive	Black	Male	HR & Remunerations Committee Chairperson
EE Themba	Non-Executive	Black	Female	Risk Committee Chairperson
N Sidondi	Non-Executive	Black	Female	Member of the Operations & Finance Committees
D Coovadia	Non-Executive	Indian	Male	Member of the Risk Committee
EM Phasha*	Non-Executive	Black	Male	-
NP Twala	Executive	Black	Male	Managing Director

2.1 CORPORATE GOVERNANCE STATEMENT

The board provides effective leadership based on a principled foundation and the entity subscribes to high ethical standards. Responsible leadership, characterized by the values of responsibility, accountability, fairness and transparency, has been a defining characteristic of the entity since the company's establishment in 1992.

The fundamental objective has always been to do business ethically while building a sustainable company that recognizes the short- and long-term impact of its activities on the economy, society and

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the environment. In its deliberations, decisions and actions, the board is sensitive to the legitimate interests and expectations of the company's stakeholders.

The entity applies the governance principles contained in King Report for Corporate Governance for South Africa 2009 (King III) and continues to further entrench and strengthen recommended practices in our governance structures, systems, processes and procedures. The Board of Directors and Executives recognise and are committed to the principles of openness, integrity and accountability advocated by the King III. Through this process, shareholders and other stakeholders may derive assurance that the entity is being ethically managed according to prudently determined risk parameters in compliance with generally accepted corporate practices. Monitoring the entity's compliance with King III forms part of the mandate of the audit committee. The entity has complied with the Code in all respect during the year under review.

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- (g) Setting strategic direction and goals of ERWAT and monitoring management's implementation of that strategy;

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- (h) Appointing such committees of ERWAT as may be appropriate to assist in the discharge of its responsibilities and to determine their responsibilities;
- (i) Ensuring that procedures and practices are in place that protects ERWAT's assets and reputation;
- (j) Monitoring financial outcomes and the integrity of reporting, in particular approving annual budgets and longer-term strategic and business plans;
- (k) Ensuring that effective audit, and compliance systems are in place to protect the ERWAT's assets and to minimise the possibility of ERWAT operating beyond legal requirements or beyond acceptable risk parameters;
- (l) Monitoring compliance with regulatory requirements and ethical standards.

ERWAT Board of Directors

Board Member	Capacity: Executive / Non-Executive Director	Race	Gender	Designation
LJ Mojapelo	Non-Executive	Black	Male	Chairperson of the Board
CC Cornish	Non-Executive	Coloured	Male	Finance Committee Chairperson Committee Ex-Officio
LN Bokaba	Non-Executive	Black	Male	Operations Committee & Remco Men
Dr KC Walli*	Non-Executive	White	Male	Operations Committee Chairperson & Committee Member
Adv MM Mochatsi	Non-Executive	Black	Male	HR & Remunerations Committee Chair & Risk Committee Member
EE Themba	Non-Executive	Black	Female	Risk Committee Chairperson & Finance Committee Ex-Officio
N Sidondi	Non-Executive	Black	Female	Member of the Operations & Finance Committees
D Coovadia	Non-Executive	Indian	Male	Member of the Risk Committee & Finance Committees
EM Phasha*	Non-Executive	Black	Male	-

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NP Twala	Executive	Black	Male	Managing Director

^aDeceased (1 October 2015)

2.2.1 ERWAT Board of Directors Summary of CV's



Mr. Joe Mojapelo (Chairperson of Board)

Mr Joe Mojapelo has the following qualifications: Diploma in Civil Engineering, BTech Civil: Urban Engineering, Masters Degree in Technogeae – dissertation pending and MBA, currently finalizing his DBA. He initiated and introduced the concept of Aerotropolis to Ekurhuleni and SA. He was appointed as a special advisor to SA Honorary Consul to the Midlands (UK) and is currently the Special Advisor to the Minister of Transport in South Africa. He is a professional engineering technologist with extensive experience in both water and transport sector, as well as served on a number of Boards within the public and private sectors.



Adv. Moferefer Mochatsi

Advocate Mochatsi has the following qualifications: BA Honours: Geography, PGD: Tertiary Education (D.T.E), B.Ed, Masters Diploma in Human Resources, Master of Education, D.Ed, LLB, PGD: Drafting & Interpretation of Contracts, Curriculum Management, Financial Management, Masters of Law. He has extensive experience in law and education. He is registered with the following professional bodies and associations: IoDSA, IMFO, ASTD, SACE.



Dr. Kevin Wall (Non-Executive Director)

Dr Kevin Wall has the following qualifications: BSc(Eng), M Urban and Regional Planning, MSc(Eng), PhD(Eng). Dr Wall is a professionally registered engineer and a registered town and regional planner. Dr Wall has extensive experience in engineering including water and sanitation engineering. He also has the following professional registrations: PrEng, TRP(SA), C Eng, CPRP. Not only is he a senior member of the professional bodies, he has been a senior office bearer in these bodies. He has served on a number of Boards within the public and private sector.



Ms Nomplo Sidondi (Non-Executive Director)

Ms Sidondi has the following qualifications:

B. Proc, Postgraduate Dip: Income Tax Law, Certificate Banking and Financial Markets. She is an experienced legal advisor with over 18 years of experience. She has vast experience in advisory of public private partnership project structuring at National Treasury level.



Mr. Tatis Phasha (Non-Executive Director)

Mr Tatis Phasha served on the ERWAT Board of Directors for many years, also in the capacity as Chairman of the Board.

Mr Pasha passed on in October 2015.



Ms Esther Themba (Non-Executive Director)

Ms Esther Themba has the following qualifications:

BA (Hons) Social Work, Bachelor of Arts in Social Work, Master of Management (Public & Development Management) – research outstanding. She has vast experience in advisory of public private partnership project structuring as well as contract management. She has held positions of Deputy Director and Director in government institutions. She currently serves as the Risk Committee Chairperson.



Mr Craig Cornish (Non-Executive Director)

Mr Craig Cornish has the following qualifications: National Diploma in Accounting, Post Graduate Certificate: Senior Management Development, Post Graduate Certificate: Forensic & Investigative Auditing. He has vast experience in auditing and financial accounting including forensic audits. He has served on a number Boards within the public and private sectors.



Mr Dawood Coovadia (Non-Executive Director) Justice of the Peace (JHB)

Mr Dawood Coovadia has the following qualifications: BCompt Accounting Science, Hons BCompt Accounting Science. He has vast experience in Auditing, Finance, Risk and Corporate Governance and has served on a number of Boards within the public sector sphere. He is a qualified Chartered Accountant and also a member of the following professional institutions:

FSAIM, FIAC, FCIS, CMC, FIMC, MIBA, PIA(SA), FIASA, CAT(UK) and IOD (SA).



Mr. Lucky Bokaba (Non-Executive Director)

Mr L Bokaba has the following qualifications: BSc Mechanical Engineering, Management Certificates in Business, Basics of Supply Chain, and Entrepreneurship Development. Diploma in Management. Credits in MBA courses (dissertation pending). Researched and developed a proof of concept electricity generator (incomplete). Industrial experience: Business development, turnaround strategies yielding business operations improvements in cost savings, production, SHEQ, plant maintenance and pre-production product testing. Tech training- fit, Elect, boiler, diesel and gas testing. International Corporate experience. He is currently serving on Board of SWA.



Mr Patrick Twala (Managing Director)

Mr Patrick Twala has the following qualifications: MDP, Finance for Non-Financial Managers.

Mr Patrick Twala has served as the Managing Director of East Rand Water Care Company from the year 2000 to 2016. He has successfully implemented change management and transformation strategy. He has extensive experience in the development and implementation of corporate strategy and corporate governance. He has served on a number of Committees as well as Boards within the public sector. He has professional membership with IoDSA and WISA.

Company Secretary

Fusion Corporate Secretarial Services (Pty) Ltd was appointed by ERWAT to assist with all company secretarial duties in the absence of an In-house Company Secretary.



Fusion has a combined experience of approximately 15 years in the Company Secretarial field and qualifications ranging from B.Com LLB, LLB to Diplomas in Advanced Business and Securities Law.

2.3 BOARD SUB-COMMITTEES

The sub committees of the board have been established with each Committee comprising of atleast three (3) Members. Mr Tatis Phasha passed on in October 2015 reducing the number of the HR & Remuneration Committee members from nine (4) to three (3) members. Below is the revised Board Subcommittee membership:

2.3.1 BOARD COMMITTEES

Finance Committee	Operations Committee	Human Resource and Remuneration Committee	Risk Committee
Mr C. Comish (Chairperson)	Dr KC Wall (Chairperson)	Adv. M Mochatsi (Chairperson)	Ms S Themba (Chairperson)
Ms N. Sidondi	Mr L. Bokaba	Mr L. Bokaba	Adv M Mochatsi
Mr D. Coovadia	Ms N Sidondi	Mr J Mojapelo	Dr KC Wall
Mr S. Themba (Ex-Officio)	Mr J Mojapelo (Ex-Officio)	N/A	Mr C. Comish (Ex-Officio)

Board & Board Committee Meetings 2015/16 Financial Year

The Board will hold sufficient scheduled meetings to discharge all its duties but subject to a minimum of four (4) meetings per year. A resolution was taken by the Board for Board and Board Committee meetings be held on a monthly basis. There were no Special Board Meetings held in the year under review.

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Table: Board and Board Committee Meetings

Name	Board Meeting	Risk Committee	Finance Committee	Operations Committee	Human Resources and Remuneration Committee	Joint EMMs Meeting	Total
Mr Joe Mojapelo	7	-	-	2	1	1	11
Mr Lucky Bokaba	7	5	-	9	6	0	27
Mr Dawood Coovadia	4	2	6	-	-	-	12
Adv. Mofereferere Mochatsi	6	7	-	-	6	1	20
Ms Nompilo Sidoni	8	-	5	3	-	1	17
Dr Kevin Wall	7	6	-	9	-	1	22
Ms Esther Themba	8	8	4	-	-	1	21
Mr Tatis Pasha (passed on October 2015)	1	-	-	-	0	Deceased	1
Mr Craig Comish	8	6	5	-	-	-	19

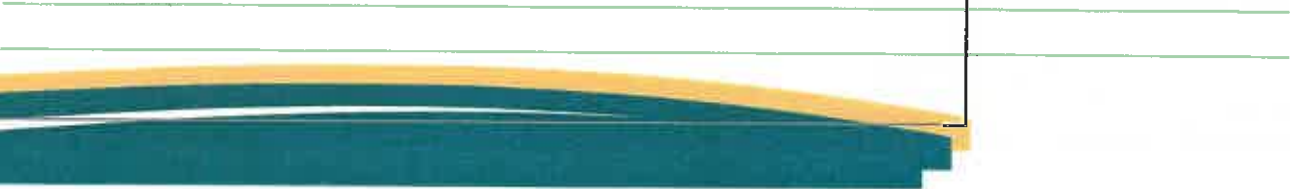
2.4 DIRECTOR'S REMUNERATION

2.4.1 ENTITY'S REMUNERATION POLICY

The remuneration of Non-Executive Directors is determined by EMM through its Remuneration Policies. The Remuneration Policy is intended to guide Municipal Entities (ME) of the EMM in the recruitment, retention and motivation of a consistently high performing human resource, thereby contributing to the achievement of the short and long term objectives of the MEs. Below is the year to date remuneration of ERWAT's Non- Executive Directors:

2.4.2 YEAR TO DATE REMUNERATION OF DIRECTORS

T



Directors	Mr Joe Mojapelo	Mr Lucky Bokaba	Mr Dawood Coovadia	Adv. Moferefero Mochatsi	Ms Nompilo Sidondl	Dr Kevin Wall	Ms Esther Thamba	Mr Tatla Pasha	Mr Craig Cornish	Total
July 2015	30 352.50	22 205.25	22 205.25	22 205.25	22 205.25	22 205.25	22 205.25	22 205.25	0	185 789.25
August 2015	30 352.50	22 205.25	22 205.25	22 205.25	22 205.25	22 205.25	22 205.25	22 205.25	44 410.50	230 199.75
September 2015	36 726.50	26 868.25	26 868.25	26 868.25	26 868.25	26 868.25	26 868.25	26 868.25	26 868.25	251 679.50
October 2015	32 569.77	26 028.28	25 954.20	26 306.08	25 611.58	25 565.28	26 537.58	509.30	26 370.90	215 452.97
November 2015	32 477.17	24 592.98	26 037.54	24 129.98	24 592.98	24 592.98	24 870.78	Deceased	24 583.72	205 878.13
December 2015	32 477.17	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	Deceased	23 759.58	198 794.23
January 2016	32 477.17	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	Deceased	23 759.58	198 794.23
February 2016	32 477.17	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	Deceased	23 759.58	198 794.23
March 2016	33 773.57	26 750.56	24 463.34	27 324.68	24 917.08	25 241.18	27 264.49	Deceased	28 658.12	218 393.02
April 2016	32 477.17	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	Deceased	23 759.58	198 794.23
May 2016	32 477.17	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	Deceased	23 759.58	198 794.23
June 2016	32 477.17	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	23 759.58	Deceased	23 759.58	198 794.23
Overseas Travel	0	0	0	61 874.00	0	0	0	0	0	61 874.00
Total (Year to Date)	391 115.03	291 208.05	290 291.31	353 470.97	288 957.87	289 235.67	292 509.08	71 788.05	293 448.97	2 562 025

2.2 ADMINISTRATIVE GOVERNANCE

INTRODUCTION TO ADMINISTRATIVE GOVERNANCE

Board of Directors (BoD) provides effective leadership to the entity on principled foundation, and the entity subscribes to the governance principles of Code of Governance Principles for South Africa - 2009

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("King III"), and other applicable laws and regulations. It further entrenches and strengthens recommended practices in its governance structures, systems, processes and procedures. The Board charter sets out the board's role and responsibilities as well as the requirements for its composition and meeting procedures. The Board and Executives recognize and are committed to the principles of openness, integrity, and accountability as are commended by King III. Through this process, the shareholder and other stakeholders derive assurance that the entity is ethically managed.

Director's responsibility in relation to internal controls and financial controls

The Board charter clearly sets out the board's role and responsibilities as well as the requirements for its composition and meeting procedures and remains accountable to Ekurhuleni Metropolitan Municipality (EMM). The Board acknowledges that it is ultimately responsible for the system of internal and financial controls established by the entity and places considerable importance on maintaining strong control environment. To enable the Board to meet these responsibilities, it set out standards for internal control aimed at reducing the risk of error or loss in a cost effective manner.

These controls are monitored throughout in the form of quarterly financial report, operations report, human resources report and other reports submitted by Management to the Board every quarter to be reviewed.

Board consists of mainly non-executive Director which they contribute an independent view to the entity matters. Given the board's oversight it has an unlimited access to all company information including compliance with company rules and regulations and best governance.

The Managing Director is responsible for the day to day management and administration and her entire staff, assisted by the executive management. The Managing Director reports to the Board and is responsible for the implementation of company policy, the organizational strategy as directed by the Board of Directors. Regarding the financial report (annual financial statement), the Board has an opinion, based on the information and explanations given by management.

Executive directors

Name of Director	Designation	Duration
Mr Pat Twala	Managing Director	Term ended 30 June 2016

COMPONENT B: INTERGOVERNMENTAL RELATIONS

INTRODUCTION TO CO-OPERATIVE GOVERNANCE AND INTERGOVERNMENTAL RELATIONS

Intergovernmental relations are mainly carried out by EMM at municipal level particularly through the Finance Department and Water and Sanitation Departments, which liaises directly with the entity as deemed appropriate.

At Provincial level, a relationship is fostered with the department of Water and Sanitation, and other Water entities and various stakeholders in the Water and Sanitation industry.

2.3 INTERGOVERNMENTAL RELATIONS

PROVINCIAL INTERGOVERNMENTAL STRUCTURE

RELATIONSHIPS WITH MUNICIPAL ENTITIES

The municipality is the shareholder or executive authority of the Municipal Entity. Its primary responsibility is oversight of the entity and to ensure accountability to the state and the communities. Municipal entities perform municipal services on behalf of Ekurhuleni Metro Municipality and form part of the metro's institutional arrangements. EMM remains legislatively obliged to ensure that municipal services are delivered in accordance with its objectives and legislative mandate. All municipal entities are thus subject to Ekurhuleni's overall strategic and policy direction, while allowing for company boards and management to exercise relative autonomy in the execution of their fiduciary duties and operational responsibilities. The Municipalities current entities include - Ekurhuleni Housing Company SOC Ltd, Brakpan Bus Company SOC Ltd; Ekurhuleni Rand Water Care Company. Both the shareholder and the board play a critical role in the governance of the SOE. Boards of entities remain accountable to the shareholder and are expected to provide quarterly reports to the parent municipality.

The relationship between EMM and its entities are governed by the regulatory framework and the corporate governance framework for municipal entities. The relationship between the municipality and the municipal entity is formalised through a Service Delivery Agreement (SDA). Developing and implementing detailed service delivery plans are within the framework of the municipality's integrated development plan. SDA's were revised and updated for each entity. All members of the boards of entities received board induction training and were trained on the corporate governance framework.

Ekurhuleni Metro Municipality has formally allocated municipal representative/s to facilitate communications between the council and the board of directors. The municipal representative or representatives attend meetings of the board of directors as a non-participating observer or observers on behalf of the municipality. The municipal representative or representatives exercise the parent municipality's rights and responsibilities at shareholder meetings.

The Independent regulatory office is responsible for regulating, managing and monitoring the entities for maximum shareholder returns, financial performance, and legislative and policy compliance. The office shall be charged with the following specific responsibilities with regards to Municipal Entities:

- Monitoring enterprise governance, investment performance and business sustainability;
- Monitoring corporate policies and practices of the Municipal Entities;
- Playing a regulatory role;
- Monitoring compliance with legislation and the municipality's reporting requirements.
- Monitoring Service Delivery and Strategic alignment
- Monitoring relationships and communication between the municipality and municipal entities

For this financial year the municipality has focused on strengthening board governance structure, board induction, and review of entities SDAs and governance maturity. The SDA key focus areas include:

- Establishment of effective municipal entities oversight/monitoring mechanisms
- Mandate and key performance areas/indicators

- Clear definition of roles and responsibilities
- Reporting channels
- Business plans
- Establishment of clear communication lines and effective stakeholder management processes

COMPONENT C: PUBLIC ACCOUNTABILITY AND PARTICIPATION

OVERVIEW OF PUBLIC ACCOUNTABILITY AND PARTICIPATION

2.4 PUBLIC MEETINGS

COMMUNICATION, PARTICIPATION AND FORUMS

Not applicable

COMPONENT D: CORPORATE GOVERNANCE

OVERVIEW OF CORPORATE GOVERNANCE

The governance structure of ERWAT is committed to global principles and guidelines on corporate governance. The entity relies primarily on the legislative framework set out in the new Companies Act 71 of 2008 (as amended) ("the Companies Act") and the King III Report on Corporate Governance ("King III") and the Service Delivery Agreement (SDA), these instruments have therefore become the cornerstone of corporate governance principles in ERWAT, and have been further spelled out in the Strategy document developed in a Board strategic session held.

Through the preparation of quarterly performance assessment reports as well as the annual report, the entity acts in compliance with the Local Government: Municipal Finance Management Act and the Municipal Systems Act and also promotes accountability to stakeholders for decisions taken by its governance structures and matters relating to administrative structures, throughout the financial year.

The entity applies the governance principles contained in King III and continues to further entrench and strengthen recommended practices in our governance structures, systems, processes and procedures.

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The Board of Directors and Executives recognise and are committed to the principles of openness, integrity and accountability advocated by the King III Code on Corporate Governance. Monitoring the entity's compliance forms part of the Shareholder mandate through Internal Audit and the audit committee.

The Board of Directors has incorporated EMM's Corporate Governance Protocol in its Board Charter, which inter alia regulates its relationship with EMM as its sole member and parent municipality in the interest of good corporate governance and good ethics. The Protocol is premised on the principles enunciated in the King III Report for Corporate Governance for South Africa 2009 (King III). The Entity steadfastly consolidated its position in respect of adherence to the King III, and its practices are in most material instances in line with the principles set out in the report. Ongoing steps are however taken to align practices with the report's recommendations and the Board continually reviews progress to ensure that management improves in upholding Corporate Governance.

During the year under review the Entity entrenched its risk management reviews and reporting and compliance assessments were conducted in terms of the Companies Act, the Municipal Systems Act (MSA) and the Municipal Finance Management Act (MFMA). The entity has strived to comply in all respects during the year under review.

Ethical Leadership

ERWAT's management observes high standards of business and personal ethics in the conduct of its duties and responsibilities. The Entity acknowledges that through socially and environmentally responsible business along the whole value chain, the situation of the natural environment, communities and employees can be improved and thereby the sustainability of the business ensured.

Corporate Citizenship

The Entity is guided by its Social and Ethics strategy in the performance of its duties which relate to matters of social and economic development, good corporate citizenship, environment, and health and public safety as well as consumer relationships. As the Entity, we value responsible business behavior and Corporate Social Responsibility ("CSR") in that we understand as a company; we have a role to play in furthering the society's developmental process.

Compliance with laws, rules, codes and standards

The board is responsible for ensuring that the entity complies with applicable laws and considers adhering to non-binding rules, codes and standards

2.5 RISK MANAGEMENT AND INTERNAL CONTROLS

2.5.1 ERWAT Risk Management Strategy

The board of directors subscribes to the principles of good corporate governance. The board is accountable for the governance of risk and to ensure that ERWAT maintains an effective, efficient and transparent system of financial, risk management and internal controls.

ERWAT has developed an Enterprise Risk Management (ERM) Strategy and Policy that are reviewed on an annual basis. The strategy is designed to assist ERWAT in achieving sustainable growth in a competitive environment, it lays out the guiding principles in the management of risk enterprise-wide. This strategy comprises the totality of all the structures, process and resources needed within ERWAT to deal with risk management at various levels.

2.5.2 ERWAT CORPORATE RISK PROFILE 2015/2016

Principle 4.6 of King III states that "the Board should ensure that risk assessments are performed on a continual basis" to provide management and the board with a realistic perspective of key risks and other material risks that ERWAT faces.

Management is responsible to ensure that risk mitigation strategies are developed to improve the overall performance and achievement of ERWAT's strategic objectives. The implementation of risk mitigation strategies are monitored by the relevant governance structures

ERWAT has adopted risk based approach internal audits. The corporate risk profile is submitted to the shared Internal Audit services annually for the development of Internal Audit Rolling Plan.

No	Strategic Objective(s)	Risk Title	Inherent Risk	Current Control	Residual Risk	Management Treatment Action Plan
1	19 Greendrops	Inadequate funding to support ERWAT long term strategy.	High	1.1 Request funding from the shareholder during the budget cycle. 1.2 Grant from the shareholder 1.3. Loans from commercial bank 2.1 The Research & Development business unit is responsible for planning and execution of projects as outlined in the FDP	High	Review the current Funding Model.
2	19 Greendrops	Failure to attract and retain employees with critical skills such as project management and other skills	High	1. Human Resources Policies	High	1. Establish an Enterprise Project Management Office and capacitate the office. 2.Train Internal staff on Project Management and the use of Project Management Software
3	R200 million	Failure to generate enough revenue to supplement the budget allocated to ERWAT by the Shareholder (EMM).	High	1 Continuously negotiate with municipalities that are outside the jurisdiction of Gauteng province were potential business opportunity is identified. 2. Tactical Plan	Medium	None
4	19 Greendrops	Delays in the procurement of goods and services hampering projects execution	High	1. ERWAT Supply Chain Management Policy 2. Continuous training of Supply Chain Management staff 3. Demand & Planning Schedule	Medium	1.Establish a Procurement Steering Committee to improve the entity spending in 2016 July.

2.5.3 Risk Management Process

ERWAT has adopted the Public Sector Risk Management Framework from National Treasury the ISO 31000 Standard and the principles of King III Report on Corporate Governance to ensure that risk management processes within ERWAT are aligned to the best practices and standards.

A Strategic risk assessment is conducted annually to ensure ERWAT achieve it's strategic objectives as set by management and approved by the board. This process strives to achieve the identification of the critical risks the entity may face to enable it to formulate appropriate risk strategies and action plans to mitigate and address these risks where necessary. Management owns the responsibility to ensure that risk management strategy and policy is implemented. They do this by taking active responsibility in the risk management process.

2.5.4 Compliance Risk Management

The management of compliance risks forms part of the overall risk management framework of ERWAT. The Board of Directors is accountable for ensuring compliance with laws, regulations, rules, policies and procedures and adopted standards applicable to ERWAT. Management is responsible to ensure that legal compliance programs are implemented and adhered to in their areas of accountability.

The Risk Management function is assisting management and the board to discharging its responsibility to comply with statutory, regulatory and supervisory requirements by facilitating the development, establishment and maintenance of an efficient and effective compliance risk management process.

During the year under review the compliance risk management policy and framework were implemented. A Regulatory Compliance Universe was developed to reflect all legislation that is to ERWAT. 5 key priority legislation was identified and compliance risk assessment was conducted. The Compliance Risk Management Plans have been developed for the 3 critical legislation.

2.5.5 Fraud Risk Management

The Board of Directors recognizes it's responsibility to ensure that irregular expenditure fruitless and wasteful expenditure and other losses are prevented at all costs. In an effort to strengthen the control environment and implement the developed Fraud Risk Management for ERWAT, a Fraud Risk Assessment was conducted and management will develop Fraud Risk Mitigation Plans. ERWAT has a zero tolerance stance towards fraud and corruption. Incidents are investigated and followed up by the application of all remedies available and the implementation of appropriate prevention and detection controls. ERWAT is committed to a strong set of values, which is shared, known and supported by everyone in the company.



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The Board of Directors appreciates that strategy, risk, performance and sustainability are inseparable as outlined in King III. It remains committed to the system of risk management, this is evident in striving to promote risk based decisions making. The directors rely on internal audit as the assurance provider to report on the weaknesses in the system of risk management, a risk maturity assessment was conducted in the year under review to determine the risk maturity level within ERWAT and develop an action plan where weaknesses were identified in the system. The Board has satisfied itself that there is a significant improvement in the system, management has committed to increasing the level of maturity in other areas.

2.6 SUSTAINABILITY REPORTING

The entity subscribes to the notion of the sustainability report, and this has been embraced by the executive management through the integration of the entity's strategy to the tripple bottom line reporting. The main focus of the sustainability reporting is to ensure that that information that is available to our stakeholder is credible and there is transparency all the time. The entity has taken the tune from the Global Reporting Index (GRI) on sustatinability reporting.

The board of diectors have assumed responsibility for the integrity of the annual report (integrated report) whereby the City's Audit Committee plays a significant role in providing assurance to the entity's reporting. This is mainly embeded in the endorsement of the combined assurance model by the entity and the shareholder (as well.

On the Corporate and Social Investment aspect the entity has invested a lot in empoweing the community of Ekurhuleni, whereby the entity has continued to educate the community on the hazards that are eminent in our plants. ERWAT is committed to maintain and build awareness about the company amongst its stakeholder communities through a well-planned social responsibility programme. This programme includes annual events to educate communities on water, such as National Water Week, National Youth Month and National Sanitation Week. ERWAT often partners with other role-players to achieve its social responsibility goals, such as the Ekurhuleni Metropolitan Municipality, the Department of Water and Sanitation, conservation specialists and non-government organisations (NGO's).

Adhrence and compliance to the enviromental standards is pivotal for the reputation of the ERWAT and this has been strengthened by the significant increase in the number of the treatment plants that achieved the Green Drop Status coupled with the water quality standards that are always maintained.

Going forward the entity will endeavour to enhance sustainability reporting and ensure that integration between economic, social and environmental impact.

Commented [AC1]: reputation

2.7 ANTI-CORRUPTION AND FRAUD

EMM embarked on a fraud, corruption and ethics risk assessment, which was rolled out in various phases throughout the municipality including its entities. These phases included the review of the current EMM Anti-corruption and Fraud Policy and Strategy, conducting a full ethics/ fraud risk assessment, the development of a fraud and corruption prevention plan, the development of the fraud and ethics risk register and awareness programmes. The Board of Directors will adopt all the policies, programs, plans e.tc relating to fraud and anti-corruption.

The ethics and fraud assessment is essential in identifying areas where the municipality and its entities is susceptible to fraud, corruption and unethical practices as well as developing a fraud prevention plan and other mitigating programs. The objective of anti-corruption and ethics assessment is to eliminate fraud, corruption, theft and maladministration activities that may or could happen. As part of this assignment, the anti-fraud and corruption policy and strategy was revised according to the regulatory framework. This policy sets out the position of EMM to fraud as well as reinforcing existing regulations aimed at preventing, reacting to, and reducing the impact of fraud, corruption, theft and maladministration where these dishonest acts subsist.

The Anti-fraud and Corruption Strategy incorporates prevention, detection, investigation and resolution on fraud and corruption. The current policies are being applied and the fraud and corruption risks are managed within the provision of the Enterprise Risk Management Policy. A full ethics and fraud risk assessment has been completed together with mitigation strategies and controls. The fraud and corruption prevention strategy has been developed and has been based on the ethics and risk profile of the departments. The fraud prevention response plan sets out clear procedures on how to address control deficiencies with clearly defined roles and responsibilities. All officials are responsible for reporting all incidents and allegations of maladministration; fraud and corruption to the Internal Audit department.

Internal Audit is driving this process of investigating and finalizing a number of cases of fraud, corruption and maladministration. Cases of corruption or maladministration have been investigated and reports have been handed over to relevant departments to implement the recommendations emanating from investigations. Where it was recommended that charges be laid with the SAPS, department heads are advised to action. EMM also encourages members of the public or providers of goods and/or services who suspect fraud and corruption to contact the relevant department or any other member of management to report such incident.

Any fraud and corruption committed by an employee or any other person will be pursued by thorough investigation and to the full extent of the law, including:

- Taking disciplinary action within a reasonable period of time after the incident;
- Instituting civil action to recover losses;
- Initiating criminal prosecution by reporting the matter to the SAPS or any other relevant law enforcement agency; and any other appropriate and legal remedy available.

2.8 SUPPLY CHAIN MANAGEMENT

OVERVIEW SUPPLY CHAIN MANAGEMENT

The entity has adopted Supply Chain Management systems in compliance with the provisions of the MFMA and the National Treasury and Municipal Supply Chain Management Regulations, 2005.

In terms of Supply Chain Management and Broad Based Black Economic Empowerment guidelines, the following is worth reporting:

- The evaluation of bids is based firstly on functionality, then price and BEE in accordance with National Treasury circulars.
- The adjudication process is applied as per the MFMA and as per the Supply Chain Management Policy,
- Declaration of interest certificates are required for all parties registering on the Supplier Database.
- BBBEE is calculated and based on information received from the suppliers, and verified by certificates confirming their BBBEE status where possible.
- The latest Internal and External Audit Reports have identified areas for improvement which are being addressed. All procurement committee members are duly appointed by the Accounting Officer (Managing Director) as required by the Supply Chain Management Policy.
- These procurement committees are as follows:
 - Bid Specification Committee;
 - Bid Evaluation Committee and
 - Bid Adjudication Committee.

An SCM unit was established and which monitors the implementation of the SCM policies in line with the regulations which seeks to modernises financial governance and improve accountability and transparency in the entity's processes. These policies also provide for the exclusion of awards to persons in the service of the state subject to the exemptions and regulations issued by National Treasury from time to time.

The Board oversees that the procurement policy embraces the objectives of broad-based Black Economic Empowerment and the Managing Director, as the Accounting Officer of the Company, was tasked as the custodian for effective implementation

2.9 BY-LAWS

No new by laws were introduced in the period under review

COMMENT ON BY-LAWS:

No new by laws were introduced in the period under review.

2.10 WEBSITES



COMMENT ENTITY WEBSITE CONTENT AND ACCESS

The entity will strive to display all annual and adjustments budgets and all budget-related documents, this will also include quarterly and annual reports on its website going forward, however, it should be noted that when all reports are consolidated with the one of the parent municipality are displayed at the Municipal's website. However, supply management contracts are displayed on the website



CHAPTER 3-SERVICE DELIVERY PERFORMANCE (PERFORMANCE REPORT PART I)

COMPONENT A: INTRODUCTION

INTRODUCTION

SERVICE DELIVERY OVERVIEW

In terms of the approved Service Delivery Agreement (SDA) between ERWAT and the EMM, the mandate for the entity is to provide bulk waste water conveyance.





3.1 ERWAT Core Business

3.1.1 Pre-determined Metro-Wide objectives

The core business of the company is the purification of waste water. ERWAT operates 19 waste water treatment works and each works is issued with a Water Use License (WUL) by the Department of Water Affairs (DWS). Each WUL contains the final effluent water quality standards the works must comply with.

To this end the main objective is to comply with the WUL effluent water quality standards at a pre-determined Metro-wide objective per quarter and annually as depicted in Table 1 below.

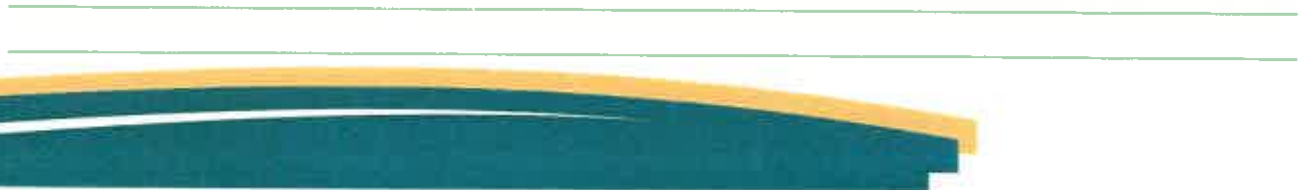


Table 1: Pre-determined Metro-wide Objectives

Planned Activities		Timeframe										Planned Budget		
		Q1		Q2		Q3		Q4		Annual		Source of funds	Budget desc.	Amount
Output 1		Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual			
Improved Water Quality Compliance	1) Improve Average Water Quality Compliance	87 %	89 %	87 %	88 %	88 %	90 %	88 %	86 %	88 %	88 %	Service Charge	Oper x	R365 M

3.1.2 Method of Measure:

Water Quality analysis of all 19 Waste water Treatment Works is calculated as a percentage of parameters complying against the set standards as per Water Use Licenses. The percentage is then averaged to get the overall % compliance.



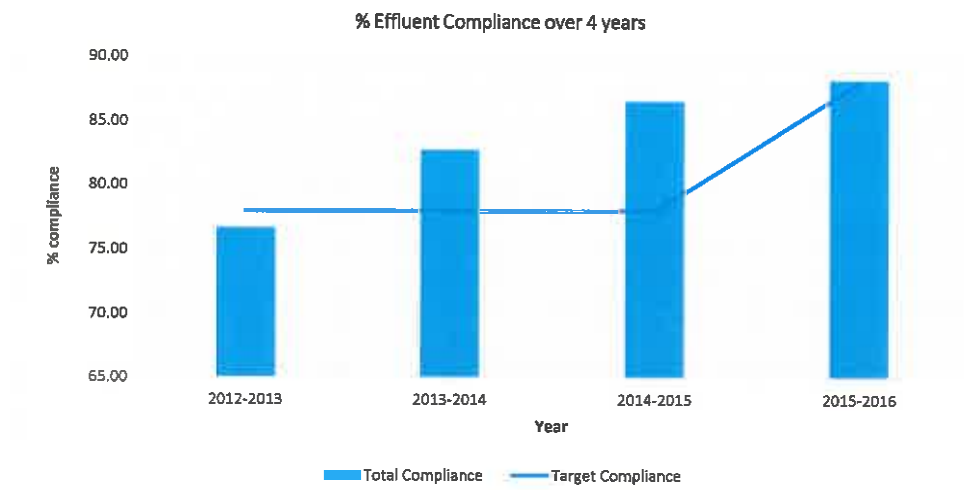


Figure 1: Actual performance of the 19 waste water treatment works against the compliance target

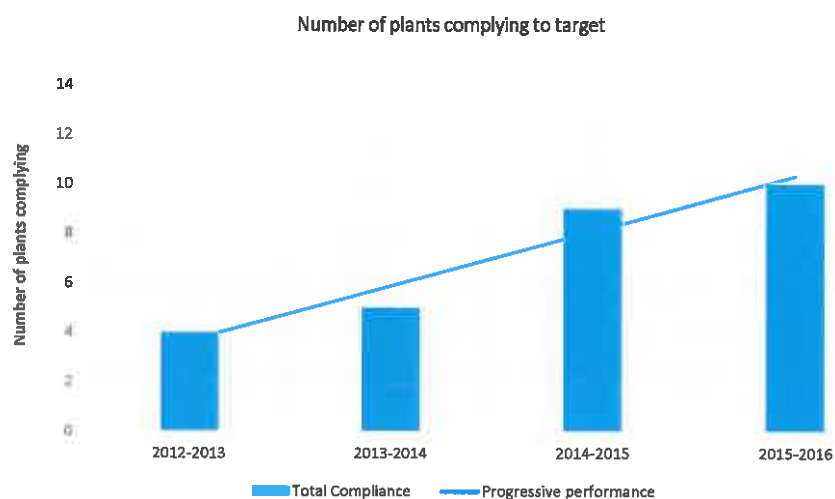


Figure 2: Number of plants meeting the set effluent compliance over 4 years.

As depicted in the graphs 1 and 2, the average water quality of the 19 works improved over the years and the target for 2013/2014 up to 2015/2016 was achieved. This was achieved through optimisation initiatives and investment in refurbishment of plants and equipment.

3.1.2 Green Drop

ERWAT adopted a strategic objective of achieving 19 Green Drops by 2016. To achieve a Green Drop excellence standard a score of 90% must be achieved.

The core business performed well with a total of 13 treatment plants achieving a score of 90% or more during 2015/2016 financial year. This is an improvement as compared to the 2014/2015 when 8 of 19 treatment plants achieved the GD score of 90% or more. Only 4 plants achieved 90% in 2013/2014. There is thus a steep upward curve in the performance of the plants, which can be attributed to the success of the Green Drop Implementation Plan (GDIP).

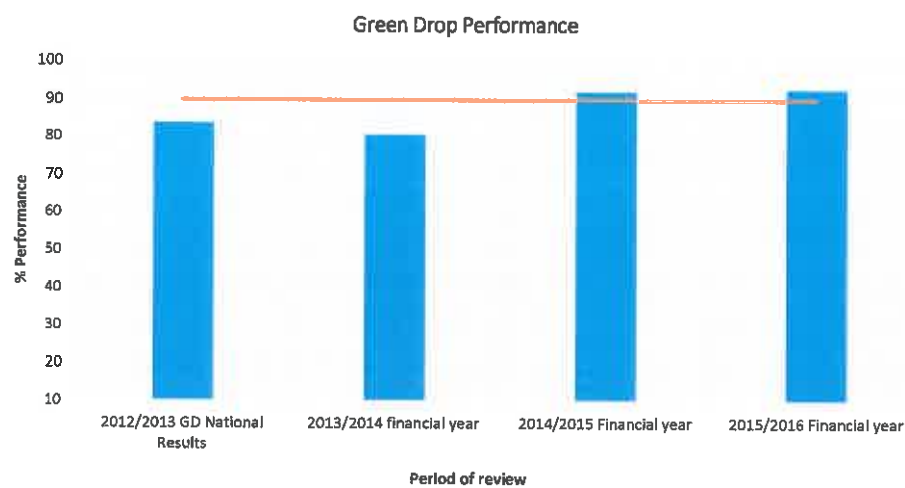


Figure 3: Overall Green Drop Performance for the past four years

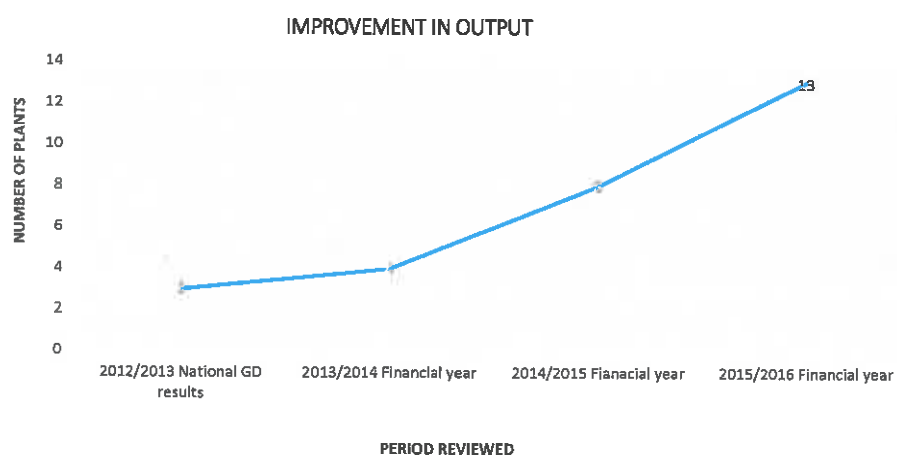


Figure 1: Number of Green Drops for the past four years (Internal assessment using Green Drop score card during the past two years)

- ❖ 3 Plants, namely Dekema, Hartebeestfontein and Waterval obtained Green Drop certification in 2012/13, with the company receiving an overall average of 83.6% (official DWS score);
- ❖ 4 Plants, namely Rondebult, Vlakplaats, Waterval and Olifantsfontein achieved excellency in 2013/14, with the company receiving an overall average of 80.60% (independent assessor);
- ❖ 8 Plants, namely Daveyton, JP Marais, Hartebeestfontein, Olifantsfontein, Dekema, Rondebult, Vlakplaats and Waterval achieved excellency in 2014/15, with the organization receiving an overall average of 89.6% for the year (internal assessment using the Green Drop scorecard);
- ❖ The implementation of the Green Drop improvement plans for 2015/16 has seen 13 plants achieving Green Drop excellent status (internal Green Drop assessment was performance using the Green Drop scorecards, with external monitoring from DWS during Q4 / Annual assessment). The plants being achieving a score of 90% or more are Benoni, Heidelberg, Jan Smuts, Daveyton, JP Marais, Hartebeestfontein, Olifantsfontein, Dekema, Ratanda, Rondebult, Rynfield, Vlakplaats and Waterval. The company received an overall average of 92.7% for the year.

3.1.3 Efficiencies

In 2015/2016, the 19 plants combined removed 17 443 ton of COD at an efficiency rate of 96%, 546 ton of NH₃ in 2015/2016, at an efficiency rate of 93%, 83 ton of PO₄ at an efficiency rate of 82%. The improvements in the removal process is due to optimisation of the plants. The total sludge yielded for the year is 54 995 at an average daily production of 227 ton/day.

Whilst doing so, the plants consumed 2 571 ton of Ferric chloride at a consumption rate of 22kg/ML, 418 ton of DBF at a consumption rate of 6.9kg/ML and 452 ton of chlorine gas at a consumption rate of 3.6kg/ML. The plants used 98 614 MWhr electricity for the year at a rate of 407 kW/ML.

The Core business utilised a total budget of R294 752 870 at a treatment rate of R1.22/kl to process a total of 242 017ML for the 2015/2016 year.



CAPITAL PROJECTS



In terms of the approved capital expenditure for the 2015/16 financial year, Erwat has planned to implement the following projects which are aligned to the strategic objectives of the City and the department of Water and Sanitation.

Welgedacht 50MI/day Upgrade

The project entails the construction of a new module in Welgedacht WWTW to increase capacity of the plant by 50 MI/day. The project is at commissioning stage and the hand-over is expected to be in August 2016.



Figure 1: New 50MI/day Module 2 at Welgedacht WWTW

Tsakane Capacity Upgrade (10 MI/day)

The project entails increasing the capacity of Tsakane WWTW by 10 MI/day through retrofitting of new technology that combines Hybacs process and Smart Units technology. *This will be the first of its kind in Gauteng Province.* The project is expected to be complete at the end of 2016

Hartebeestfontein Capacity Upgrade (5 MI/day)

The project entails increasing the capacity of Hartebeestfontein WWTW by 5 MI/day through using existing infrastructure and retrofitting new technology called Nerada®. This will be the first of its kind in Gauteng Province too. The project is at practical completion stages.

Integrated Sludge Beneficiation Project

This project aims to provide the following infrastructure at the Waterval WWTW:

- The refurbishment and optimisation of sludge treatment and biogas production infrastructure
- Combined Heat and Power (CHP) installation for onsite generation of electricity utilising the biogas. This electricity is anticipated to power +/- 60% of the Waterval plant.
- Phosphorus recovery plant to reduce the effects of struvite build up in the pipes and to sell it as a product.
- Enhanced drying of the mechanically dewatered sludge to produce a saleable end product that ensures the dry sludge is removed from site and generates a revenue stream.

The project had a budget of R 100 million for financial year 2015/16 and only 5% have been spent by the end of June 2016.

Appendix M:

Capital Project	Original Budget	Adjusted Budget	Actual	Variance (Act-Adj) %	Variance (Act-OB) %
Hartebeestfontein 5 ML/day Capacity Upgrade	R 20 000 000	R 20 000 000	R 11 357 582	-43	-43
Vlakplaats Flow Distribution	R 40 000 000	R 40 000 000	R 0	-100	-100
Welgedacht 50ml/day Capacity Upgrade	R 40 000 000	R 40 000 000	R 46 181 894	15	15
Integrated Sludge Beneficiation Project	R 100 000 000	R 100 000 000	R 5 215 716	-95	-95
Tsakane 12 ML/day Capacity Upgrade	R 18 000 000	R 18 000 000	R 16 222 649	-10	-10
New Office Building	R 15 500 000	R 15 500 000	R 2 505 730	-84	-84

T 3.8.5

COMMENT ON THE OVERALL
PERFORMANCE:

□The implementation of the Green Drop improvement plans for 2015/16 has seen 13 plants achieving Green Drop excellent status (internal Green Drop assessment was performance using the Green Drop scorecards, with external monitoring from DWS during Q4 / Annual assessment). The plants being achieving a score of 90% or more are Benoni, Heidelberg, Jan Smuts, Daveyton, JP Marais, Hartebeestfontein, Olifantsfontein, Dekema, Ratanda, Rondebult, Rynfield, Vlakplaats and Waterval. The company received an overall average of 92.7% for the year.

T 3.8.7

3.25 FINANCIAL SERVICES



INTRODUCTION TO FINANCIAL SERVICES

The entity is tasked with provision of financial service in an accountable, **effective and transparent** manner through service excellence

T 3.25.1

The entity has the following components:

- Income
- Expenditure
- Financial control
- Budget and Financial Management
- Administration

Total Revenue

Revenue of ERWAT for the period under review consists mainly of rendering waste water purification services to the members of the company. This amounted to R575.5m of a total income of R788.8m.

Operational expenditure

Total operating expenditure amounted to R675.5m.

The net surpluses achieved are as follows:

	Surplus/ (Deficit) before tax	CASH ON HAND
2015/2016	R113 254 142	R305 353 331
2014/2015	R108 327 782	R87 264 592

3.26 HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

INTRODUCTION TO HUMAN RESOURCE SERVICES

The departmental provides quality driven Human Capital strategies and support for ERWAT. The entity has a stable HR department that consists of various components of the HR requirement and continues to provide support to the entity on all HR related matters.

T 3.26.1

CHAPTER 4 – ORGANISATIONAL DEVELOPMENT PERFORMANCE (PERFORMANCE REPORT PART II)

COMPONENT A: INTRODUCTION TO THE ENTITY PERSONNEL

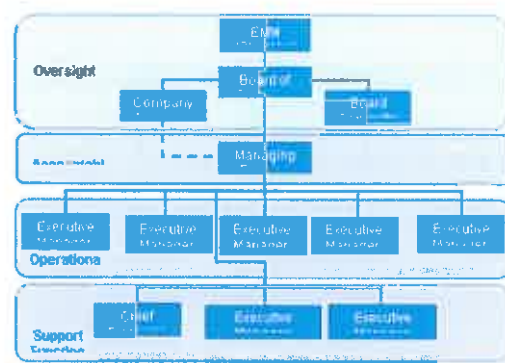
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ERWAT employed a total of 619 employees at 30 June 2016. During the year a total of 91 new employees were appointed, 32 employees left the service of the company of which 14 resigned, 10 retired and 6 employees died during the year.

1. STRATEGIC OBJECTIVES OF THE HUMAN RESOURCES

- To plan, recruit develop and retain a highly competent and diverse workforce, develop a positive corporate culture that promotes commitment to excellence and to ensure that the organisation meets its social and legal responsibilities towards its employees with particular regard to conditions of employment, quality of work life and create opportunities for all, in support of the organisational strategy.

2. ORGANISATIONAL ORGANOGRAM



3. TOTAL MANPOWER as @ 30th June 2016



	AFRICAN	WHITE	FEMALE	MALE	TOTAL
MD	3	2	1	4	5
Corporate Services	2	0	2	0	2
Human Resources	2	2	4	2	6
Marketing	2	1	3	0	3
Laboratory Services	51	6	36	21	57
Development	4	6	8	2	10
Admin & Finance	15	7	13	9	22
Operations	364	13	72	305	377
Loss Control	5	2	1	6	7
Technical Services	96	15	23	88	111
Supply Chain	5	2	4	3	7
Commercial Business	8	4	3	9	12
Non- Permanent Staff	94	3	1	6	103
TOTAL EMPLOYEES	657	59	167	459	722

- Total Manpower expenditure vs. Operational Expenditure for the period under review = 34.17%

Year	2015/2016
Total Operational Cost	R 672 588 352.94
Total Manpower Cost	R 229 845 583.26

3.1. WORKFORCE STATISTICS

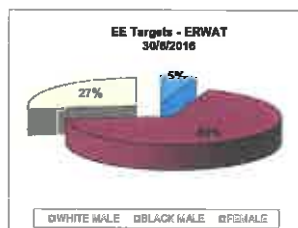
3.1.1. Employment Equity

ERWAT Permanent staff only as @ 30th June 2016

PATERSON PROFILE LEVEL	AFRICAN				WHITE		TOTAL	% EQUITY
	B	C	I	F	F	M		
EXECUTIVES	2	1			1	1	5	80,00%
D	11	2		8	5	12	38	68,42%
C	76	4	3	45	9	16	153	89,54%
B	179	4	2	66	8	4	260	98,44%
A	132	4	0	31			167	100,00%
TOTAL	400	18	7	143	23	33	619	

3.1.2. Demographics for Permanent Employees as at 30th June 2016

TOTAL 2016	WHITE MALE	BLACK MALE	FEMALE	% EQUITY
619	33	420	166	95%



3.1.3. Age Analysis as at 30th June 2016

Occupational Categories	Age Analyses					
	20-35	35-55	56-60	61-65	>65	
Clerks	11	18	7	2	0	38
Elementary Occupations	53	83	14	7	1	158
Legislators, senior officials and managers	3	7	3	1	0	14
Plant / Machine Operators	96	65	11	14	1	186
Professionals	12	19	4	2	0	37
Skilled agricultural workers	27	2	0	0	0	29
Technicians/Associated Professionals	81	66	6	4	0	157
TOTAL PERMANENT	283	260	45	30	1	619
Non-Permanent Employees	70					70
TOTAL ON PAYROLL	353	260	45	30	1	689

Average age as at 09/2007 = 46

Average age as at 06/2016 = 36

3.1.4.Total Labour Turnover = 8.17%

	Female		Male				Total
	A	C	A	C	I	W	
Deceased	0	0	6	0	0	0	6

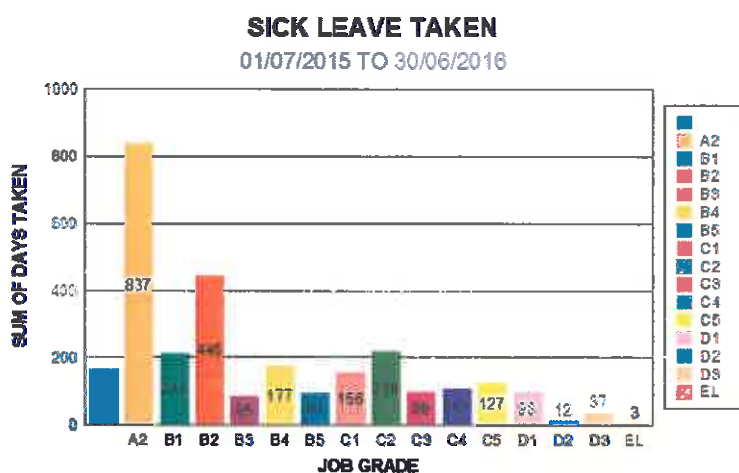
Disability	1	0	1	0	0	0	2
Dismissed	1	0	7	1	0	0	9
Resignations	13	1	16	0	1	1	32
Retirements	1	0	8	0	0	1	10
Total	16	1	55	4	1	3	59

3.1.5. Injuries on Duty = 2.2 days/employee

INJURIES ON DUTY			
TYPE OF INJURY	INJURIES REPORTED	EMPLOYEES USING INJURY LEAVE	AVERAGE INJURY LEAVE PER EMPLOYEE
Required basic medical attention	93	16	2.22
Temporary, Permanent or Fatal	N/A	N/A	N/A
TOTAL	93	16	2.22

3.1.6. Total Sick Leave taken for period under review = 3.9 days/employee





3.1.7.New Appointments

DEPARTMENT	NO. OF EMPLOYEES
Admin & Finance	2
Supply Chain	4
Loss Control	6
Development	3
Human Resources	1
Technical Services	4
Commercial Business	2
Operations	68
Laboratory	1
Total	91

3.1.8.Promotions

DEPARTMENT	NO. OF EMPLOYEES
Admin & Finance	1
Development	1

Technical Services	2
Operations	6
Laboratory	1
Total	11

3.1.9. Statistics for Non-Permanent Staff as at 30/6/2016

	African	Coloured	Indian	White	Total
Bursary Students	4	2	0	0	6
Contractors	13	1	1	3	18
Graduates	33	0	0	1	34
In-Service Trainees	44	0	0	1	45
Total	94	3	1	5	103

4. EMPLOYEE WELLNESS

4.1.1. Wellness Programmes

- *Wellness days:*

- The Wellness days are facilitated through Discovery Health annually.
- Wellness days are organised for three Districts.

- *Trauma Counselling*

- 6 employees were counselled for trauma and social related matters for the period under review.

▪ **Substance abuse:**

- Assistance are provided for employees who battle with substance abuse, only one employee were institutionalise for substances dependence in the period under review.

▪ **Occupational injuries:**

- Depending on the injury on duty at hand, the employees are referred to either Physiotherapist or Occupational Therapist by the treating doctor then assistance in ensuring that appointments are followed as scheduled.

4.1.2.HIV/AIDS Workplace Programme

- 43 Wellness Champions, nominated by their peers, received extensive wellness and health education training in a form of quarterly workshops and are placed at all workstations.
- Wellness Champions assist in identifying health & wellness concerns amongst their peers which helps in dealing with absenteeism. They are also spearheading community volunteerism projects within the community closes to their respective Plants, initiating these projects with the assistance of the company.

5. TRAINING AND DEVELOPMENT

- Senior Operators and the Graduates attended an operators training seminar presented by a Waste Water Operations and Design professional from India. The feedback received was very positive and the cross pollination of ideas will have a positive impact on our operations standards. This also gave the operations staff the opportunity to compare ERWAT operations with similar plants in comparable environments.
 - Minimum competency training as required by the MFMA was performed for identified staff members. Training will be ongoing for all staff members required to complete certain Unit Standards in the current financial year.
 - The aggressive recruitment by various trade unions as well as the election of new shop stewards, provided us with the opportunity to provide a comprehensive course on Labour Relations and the Collective Bargaining for all shopstewards.
 - A very successful two year Graduate Programme, consisting of 34 graduates, has been concluded in the period under review. The programme was undertaken firstly to provide work experience to unemployed graduates and also to create a pool of qualified individuals from which ERWAT could enhance its skills base to meet the requirements of Regulation 17 of the Water Act. The theoretical aspect of the programme consisted of four
-
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blocks over the period of two years, firstly to familiarise the individuals to the requirements of the working environment, during these session the graduates has been exposed to sessions dealing with Self Awareness, Financial Reporting, SCM Policies and Procedures, Green Drop Criteria as well as the critical skills to meet the requirements of becoming successful Operators and Process Controllers. For their final projects, graduates were divided into teams and tasked with a research project to enhance process efficiencies aimed at addressing challenges faced at the various plants as well as initiatives to reduce operating costs. The team presentations and graduation took place on 13 May 2016, Abashukumisi was the winning team with the project topic being **"Cost Benefit Analysis Comparison of Different Aeration Systems for Herbert Bickley"**. The graduates were also awarded Certificates of Recognition for their dedication and commitment to the two year programme.



5.1 STATEMENTS OF FINANCIAL PERFORMANCE

5.1 STATEMENT OF FINANCIAL PERFORMANCE

Financial Summary										REVENUE
Description	Ref	2013/14		2014/15		Current year 2015/16		Year 2015/16 Variance		
		Actual	Budget	Actual	Budget	Original Budget	Adjusted Budget	Original Budget	Adjusted Budget	
REVENUE										
Revenue By Source										
Service charges - sanitation revenue	1	480 657	505 504	575 533	575 533	575 533	575 533	100%	100%	
Interest earned - capital investments		5 356	4 555	4 720	4 720	4 720	4 720	278%	278%	
Dividends received		174	81	70	70	70	70	214%	214%	
Other revenue		433 545	438 380	473 354	473 354	473 354	473 354	143%	143%	
Total Revenue (including capital transfers and contributions)		920 731	986 920	1 072 677	1 072 677	1 072 677	1 072 677	104%	104%	
EXPENDITURE										
Expenditure By Type										
Employee related costs		175 455	225 284	251 551	251 551	251 551	251 551	91%	91%	
Remuneration of Directors		1 525	1 522	1 457	1 457	1 457	1 457	173%	173%	
Costs incurred		(1 484)	1 502	359	359	359	359	100%	100%	
Depreciation & asset impairment		28 110	32 351	32 377	32 377	32 377	32 377	157%	157%	
Finance charges		10 288	25 000	47 754	47 754	47 754	47 754	114%	114%	
Bank purchases	2	135 224	143 055	154 559	154 559	154 559	154 559	86%	86%	
Other expenditure		138 539	144 115	155 875	155 875	155 875	155 875	93%	93%	
Total Expenditure	3	405 957	553 583	705 677	705 677	705 677	705 677	96%	96%	
Surplus/(Deficit)		514 774	433 337	367 000	367 000	367 000	367 000	227%	227%	
Transfers recognised - capital		(50 000)	(50 000)	(50 000)	(50 000)	(50 000)	(50 000)	100%	100%	
Surplus/(Deficit) before transfer		51 104	55 116	(33 000)	(33 000)	(33 000)	(33 000)	100%	100%	
Transfer										
Surplus/(Deficit) for the year		51 104	55 116	(33 000)	(33 000)	(33 000)	(33 000)	-	-	
CAPITAL EXPENDITURE & FUNDS SOURCE										
Capital Expenditure	4, 6	305 755	305 554	337 375	337 375	337 375	337 375	101%	101%	
Funds										
National Government		50 000	50 000	50 000	50 000	50 000	50 000	100%	100%	
Transfer recognised - capital		25 000	25 000	25 000	25 000	25 000	25 000	100%	100%	
Public contributions & donations										
Borrowing	1	-	125 735	155 877	155 877	155 877	155 877	17%	17%	
Internally generated funds	2	255 755	125 735	151 598	151 598	151 598	151 598	153%	153%	
Total Capital Funding		305 755	305 554	337 375	337 375	337 375	337 375	101%	101%	
FINANCIAL POSITION										
Total current assets		72 518	155 875	15 143	15 143	15 143	15 143	27%	27%	
Total non-current assets		1 275 219	1 245 449	2 007 300	2 007 300	1 725 458	1 725 458	88%	88%	
Total current liabilities		115 418	95 354	97 231	97 231	175 852	175 852	173%	173%	
Total non-current liabilities		110 054	422 880	840 355	840 355	555 235	555 235	95%	95%	
Equity		1 125 305	1 235 079	1 258 012	1 258 012	1 215 116	1 215 116	104%	104%	
CASH FLOWS										
Net cash from (used) operating		437 475	50 550	74 800	74 800	255 250	255 250	31%	31%	
Net cash from (used) investing		(505 248)	(505 576)	(357 375)	(357 375)	(357 375)	(357 375)	81%	81%	
Net cash from (used) financing		(15 800)	505 545	505 545	505 545	505 545	505 545	100%	100%	
Cash/ cash equivalents at the year end		55 914	57 219	(80 120)	(80 120)	365 150	365 150	100%	100%	

Repair and Maintenance Expenditure: Year 2014/15				
	Original budget	Adjustment budget	Actual	Budget variance
Repairs and maintenance expenditure	100,050	100,050	81,103	-19%

5.2 GRANTS

The parent municipality, Ekurhuleni Metropolitan Municipality (EMM) allocates a portion of the infrastructure grants that they receive toward bulk sanitation services. This amounted to R50m in the 2014/15 financial year. This is the only grant that ERWAT received from EMM. Development contributions of R40.2m were received in 2015/16 (R16.9m in 2014/15). No other transfers were made by EMM to ERWAT.

5.3 ASSET MANAGEMENT

Repair and Maintenance Expenditure: Year 2015/16				
	Original budget	Adjustment budget	Actual	Budget variance
Repairs and maintenance expenditure	112 160	112 160	103 665	-8%

The Technical department, led by an Executive manager is responsible for all repairs and maintenance work in the company. Repair and maintenance cost as a percentage of operating expenditure has increased from 14.67% in 2014/15 to 15.34% in 2015/16. Expenditure on maintenance, both planned and adhoc maintenance are extremely important as it not only improve efficiencies on the plants but extend the useful lives of the infrastructure.

Erwat also has a facilities development plan that provide for long term infrastructure needs. This is done by the Development department in consultation with all other relevant departments.

5.4 Ratio analysis

5.4.1 Liquidity ratio

Erwat's current ratio improved from 2.26:1 in 2014/15 to 2.41:1 in the 2015/16 year. This was due to improvement in cash on hand as a result of a slowdown in capital spending.

5.4.2 Solvency ratio

The companies solvency position deteriorated from a solvency ratio of 0.28 in 2014/15 to 0.21 in 2015/16. This was due to an increase in long term loans that is needed to fund our capital program. This trend will likely continue for the foreseeable future unless increased grant funding can be obtained.

5.4.3 Capital expenditure to Operating expenditure

This has deteriorated from a ratio of 0.56:1 in 2014/15 to 0.36:1 in 2015/16. Significant steps have been taken by the Board of Directors and Management to improve the situation and address the issues(capacity and project management skills as well as improved planning).

5.4.4 Employee cost ratio

Employee cost as a percentage of operating expenditure has improved from 38.2% in 2014/15 to 34.39% in 2015/16.

5.4.5 Repair and maintenance ratio

Repair and maintenance cost as a percentage of operating expenditure has increased from 14.67% in 2014/15 to 15.34% in 2015/16. Expenditure on maintenance, both planned and adhoc maintenance are extremely important as it not only improve efficiencies on the plants but extend the useful lives of the infrastructure.

COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

5.5 CAPITAL EXPENDITURE

Capital Expenditure for the year amounted to R242.3m which is 61% of the budget of R397.4m. This is less than satisfactory and was mainly due to

Total Capital Expenditure: Year 2013/14 to Year 2015/2016	Year 2013/2014	Year 2014/2015	Year 2015/2016
Original Budget	R301,9m	R396,7m	R397,4m
Adjustment Budget	R3,019m	R396,7m	R397,4m
Actual	R309,7m	R308,6m	R242,3m
% Capital Spent based on Original Budget	102,6%	77,79%	61,0%
% Capital Spent based on Adjustment Budget	102,6%	77,79%	61,0%

5.6 SOURCES OF FINANCE

ERWAT had long-term loans from DBSA, INCA and Nedbank. The loans are used specifically to fund long-term infrastructure projects such as the extension of existing plants and construction of new plants. The other sources of funding are own funds, generated through savings and depreciation as well as R50m grant funding received from the parent municipality on an annual basis.

- Erwat has a bank account with ABSA and a limited number of shares in Sanlam and Old Mutual which was received through the demutualization process.

5.7 CAPITAL SPENDING ON 5 LARGEST PROJECTS

Capital Expenditure of Largest Projects						R'000
Name of Project	Current: Year 0		Variance: Current Year 0			
	Original Budget	Adjustment Budget	Actual Expenditure	Original Variance (%)	Adjustment Variance (%)	
A - Welgedacht WWTW	40 000.00		76 780	91.95	-	
B - Taskaria WWTW	18 000.00		18 222	-9.88	-	
Projects with almost capital expenditure in Year 0						
Name of Project - A	60Mtd Extension to the Welgedacht WWTW					
Objective of project	The objective of the project is to increase the plant capacity					
Delays	No additional delays					
Future challenges	No future challenges					
Anticipated citizen benefits	The quality of the effluent discharged will improve and will provide capacity to developments in the area.					
Name of Project - B	Upgrade of Taskaria WWTW					
Objective of project	The objective of the project is to increase the plant capacity					
Delays	No additional delays					
Future challenges	No future challenges					
Anticipated citizen benefits	The quality of the effluent discharged will improve and will provide capacity to developments in the area.					

COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

5.9 CASH FLOW

Cash Flow Outcomes					
Description	2013/14	2014/15	Current year 2013/15		2013/15
	Audited Outcomes	Audited Outcomes	Original Budget	Adjusted Budget	YearTD Actual
CASH FLOW FROM OPERATING ACTIVITIES					
Parastata					
Employees and other	553 755	563 458	700 887	700 887	720 888
Government - capital	50 000	50 000	50 000	50 000	50 000
Interest	4 034	4 536	4 720	4 720	13 048
Dividends	114	91	70	70	450
Payments					
Supplies and employees	(1310 133)	(513 337)	(833 333)	(833 333)	(437 753)
Finance charges	(10 353)	(23 323)	(47 754)	(47 754)	(54 203)
NET CASH FROM/USED IN OPERATING ACTIVITIES	457 416	80 425	74 600	74 600	232 281
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments					
Capital assets	(509 243)	(109 503)	(587 375)	(587 375)	(244 000)
NET CASH FROM/USED IN INVESTING ACTIVITIES	(509 243)	(109 503)	(587 375)	(587 375)	(244 000)
CASH FLOWS FROM FINANCING ACTIVITIES					
Parastata					
Borrowing long term/financing	(15 300)	301 438	224 843	224 843	226 918
Payments					
Repayment of borrowing					
NET CASH FROM/USED IN FINANCING ACTIVITIES	(15 300)	301 438	224 843	224 843	226 918
NET INCREASE / DECREASE IN CASH HELD	(167 127)	73 451	(30 132)	(30 132)	210 959
Cash/cash equivalents at the year begin	171 451	13 314	71 155	71 155	57 253
Cash/cash equivalents at the year end	13 314	87 265	(26 977)	(26 977)	305 353

5.10 BORROWING AND INVESTMENTS

Erwat had long-term loans from ABSA, DBSA, INCA and Nedbank. The ABSA loan was repaid in the 2014/15 financial year. The loans are used specifically to fund long-term infrastructure projects such as the extension of existing plants and construction of new plants.

Erwat has a bank account with ABSA and a limited number of shares in Sarlam and Old Mutual which was received through the demutualisation process.

LONG TERM LOANS 2013/14 to 2015/16

	OUTSTANDING BALANCES AS AT 30 JUNE		
	2013/14	2014/15	2015/16
ABSA	9 168 400.43	-	-
DBSA	21 925 225.38	18 627 063.31	15 378 338.92
INCA	73 059 745.39	69 168 932.24	64 779 762.72
NEDBANK	-	317 495 354.00	552 553 867.33
TOTAL LOANS	104 153 371.20	405 291 349.55	632 711 968.97

COMPONENT D: OTHER FINANCIAL MATTERS

5.12 SUPPLY CHAIN MANAGEMENT

ERWAT has an approved supply chain management policy which is derived from the supply chain regulations contained in the Municipal Finance Management Act and is in line with the approved supply chain management policy of the parent municipality.

During the 2014/15 financial period ERWAT made significant progress in developing and implementing policies in accordance with SCM Regulations 2005. In order to aid with implementation of the updated policies and procedures drafted, capacitation of the department was prioritised and as at the date of this report all positions in the SCM department have been filled.

Remedial action taken for AGSA findings

In order to resolve findings from the previous AGSA audit report the following actions were taken:

- The errors identified in the supply chain management policy was corrected in the updated policy
- New standard bid documentation which are aligned with the laws and regulations governing the SCM process was implemented
- A separate petty cash policy was drafted and adopted to address the concerns over petty cash limits
- The OPCA sheets were regularly updated and submitted to EMM in order to track progress of the remedial action plan
- Compliance with the CIDB regulations was prioritised and the advertising process was amended to facilitate compliance the regulations.

Prescribed competency levels

As at 30 June 2016 one (1) supply chain official has reached the prescribed levels required for their positions and one (1) is currently in the process of completing the recognition of prior learning programme. An additional manager has been appointed, starting on 1 September 2016. This individual has reached the prescribed level required for the position.

5.13 GRAP COMPLIANCE

ERWAT is in compliance with GRAP (General Recognized Accounting Principally Standards). The annual financial statements have been prepared in accordance with the Standards of Generally Recognized Accounting Practices (GRAP) including interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003)

CHAPTER 6 – AUDITOR GENERAL AUDIT FINDINGS

INTRODUCTION

COMPONENT A: AUDITOR-GENERAL OPINION OF FINANCIAL STATEMENTS

6.1 AUDITOR GENERAL REPORTS YEAR (2014-2015)

Auditor-General Report on Financial Performance: 2014/2015 Financial Year	
Audit Report Status*:	UNQUALIFIED with matters of emphasis
Non-Compliance Issues	Remedial Action Taken
1) In certain instances reasonable steps were not taken to prevent irregular expenditure, as required by section 95(d) of the MFMA.	1. Delegation of authority for approval of purchase orders for buyers has been reduced to increase managerial involvement in approval of lower value transactions. 2. Compliance checklist stamps were implemented on 1 November 2015. 3. Position of SCM Compliance specialist was filled on 3 August 2015.
2) The bid adjudication was not always done committees which were composed in accordance with section 29(2) of the Municipal Supply Chain Management Regulations (GNR, 868 of 30 May 2005).	1. SCM compliance specialist attends adjudication meetings to ensure quorum requirements are met at all times. 2. Additional level of control was introduced to ensure the accuracy of minutes of bid adjudication meetings. 3. Format and wording of award letters were updated to ensure that the situation where awards were made by the accounting officer is clearly reflected for audit purposes.
3) The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of provisions, other receivables, property, plant and equipment, finance cost and borrowings were identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.	Additional in-depth checks for all transaction have been implemented, as well as improved planning for the preparation of financial statements and early preparation to allow for additional reviews which will ensure that a recurrence of a section 122 paragraph is unlikely.

Auditor General Report Year (2014-2015). Attached as Volume III

Auditor General's (AG) audit opinion for 2014/2015 is attached, which indicates an unqualified report with emphasis of matter issues and the company has since worked on them in avoidance of repeat findings. See attached Auditor General Report

COMPONENT B: AUDITOR-GENERAL OPINION YEAR 0 (CURRENT YEAR)

6.2 AUDITOR GENERAL REPORT YEAR 2015/2016-O/S

COMMENTS ON MFMA SECTION 71 RESPONSIBILITIES:

Section 71 of the MFMA requires monthly budget statements. (1) The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month

All the documents were submitted by ERWAT as required by section 71 of the MFMA.

Signed (Chief Financial Officer).....

Dated

31 August 2016

Commented [ZS3]:

CHAPTER 7 PERFORMANCE INFORMATION

ASSESSMENT OF ANNUAL SDBIP PERFORMANCE

LEVEL OF PLANNING	PLANNING STATEMENTS	INDICATORS	ANNUAL TARGET 2015/2016	YEAR TO DATE PERFORMANCE 2015/2016	COMMENTS
Direct Outcome	Improve the effluent quality compliance	% compliance with wastewater treatment works license conditions and/or exemptions standards	88%	90%	Achieved
Output	Increased number of plants complying 90% against applicable water quality standards	Number of wastewater treatment works complying 90% against the applicable water quality standards	8	12	Achieved
Output	Internal sample analysis	Number of critical analysis finalised on the final effluent samples of the 19 ERWAT waste water treatment plants	55936	41716	Not achieved
Output	Increase Revenue Generated	Rand Value of the revenue generated	R120m	R78m	Not achieved
Output	Increase ERWAT Wastewater Treatment Plants (WWTP) treatment capacity and improve process efficiency through infrastructure development projects	Expenditure on Infrastructure Development Capital Projects to increase capacity and improve process efficiency	R326m	R94.9m	Not achieved

GLOSSARY

Accessibility Indicators	Explore whether the intended beneficiaries are able to access services or outputs.
Accountability documents	Documents used by executive authorities to give <i>"full and regular"</i> reports on the matters under their control to Parliament and provincial legislatures as prescribed by the Constitution. This includes plans, budgets, in-year and Annual Reports.
Activities	The processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes. In essence, activities describe <i>"what we do"</i> .
Adequacy indicators	The quantity of input or output relative to the need or demand.
Annual Report	A report to be prepared and submitted annually based on the regulations set out in Section 121 of the Municipal Finance Management Act. Such a report must include annual financial statements as submitted to and approved by the Auditor-General.
Approved Budget	The annual financial statements of a municipality as audited by the Auditor General and approved by council or a provincial or national executive.
Baseline	Current level of performance that a municipality aims to improve when setting performance targets. The baseline relates to the level of performance recorded in a year prior to the planning period.
Basic municipal service	A municipal service that is necessary to ensure an acceptable and reasonable quality of life to citizens within that particular area. If not provided it may endanger the public health and safety or the environment.
Budget year	The financial year for which an annual budget is to be approved – means a year ending on 30 June.
Cost Indicators	The overall cost or expenditure of producing a specified quantity of outputs.
Distribution Indicators	The distribution of capacity to deliver services.
Financial Statements	Includes at least a statement of financial position, statement of financial performance, cash-flow statement, notes to these statements and any other statements that may be prescribed.
General performance Indicators Key	After consultation with MECs for local government, the Minister may prescribe general key performance indicators that are appropriate and applicable to local government generally.
Impact	The results of achieving specific outcomes, such as reducing poverty and creating jobs.
Inputs	All the resources that contribute to the production and delivery of outputs. Inputs are <i>"what we use to do the work"</i> . They include finances, personnel, equipment and buildings.
Integrated Development Plan (IDP)	Set out municipal goals and development plans.

National Key performance areas	• Service delivery & infrastructure • Economic development • Municipal transformation and institutional development • Financial viability and management • Good governance and community participation
Outcomes	The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. Outcomes are "what we wish to achieve".
Outputs	The final products, or goods and services produced for delivery. Outputs may be defined as "what we produce or deliver". An output is a concrete achievement (i.e. a product such as a passport, an action such as a presentation or immunization, or a service such as processing an application) that contributes to the achievement of a Key Result Area.
Performance Indicator	Indicators should be specified to measure performance in relation to input, activities, outputs, outcomes and impacts. An indicator is a type of information used to gauge the extent to which an output has been achieved (policy developed, presentation delivered, service rendered)
Performance Information	Generic term for non-financial information about municipal services and activities. Can also be used interchangeably with performance measure.
Performance Standards:	The minimum acceptable level of performance or the level of performance that is generally accepted. Standards are informed by legislative requirements and service-level agreements. Performance standards are mutually agreed criteria to describe how well work must be done in terms of quantity and/or quality and timeliness, to clarify the outputs and related activities of a job by describing what the required result should be. In this EPMDS performance standards are divided into indicators and the time factor.
Performance Targets:	The level of performance that municipalities and its employees strive to achieve. Performance Targets relate to current baselines and express a specific level of performance that a municipality aims to achieve within a given time period.
Service Delivery Budget Implementation Plan	Detailed plan approved by the mayor for implementing the municipality's delivery of services; including projections of the revenue collected and operational and capital expenditure by vote for each month. Service delivery targets and performance indicators must also be included.
Vote:	One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The Vote specifies the total amount that is appropriated for the purpose of a specific department or functional area. Section 1 of the MFMA defines a "vote" as:

	<i>a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and</i> <i>b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned</i>
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APPENDICES

APPENDIX A – COUNCILLORS: COMMITTEE ALLOCATION AND COUNCIL
ATTENDANCE: N/A

APPENDIX B – COMMITTEES AND COMMITTEE PURPOSES

Committees (other than Mayoral/ Executive Committee) and purposes of Committees	
Entities Committees	Purpose of Committee
Finance	The finance Committee support the Board of directors in discharging its finance and audit oversight
Risk Management	The risk and management supports the Board of Directors in maintaining effective and transparent systems of risk management
Remuneration and HR	The Remuneration and Ethics committee has an independent role, operating as an overseer and a market of recommendations to the Board for its consideration and final approval about the company remunerates directors and executives fairly and responsibly and the disclosure of director remuneration is accurate, complete and transparent.
Operations	The Operations Committee support the Board of Directors in overseeing operations of the entities.
T B	

APPENDIX D – FUNCTIONS OF THE ENTITY

Erwat is responsible for Bulk sanitation services. The company operates 19 Waste water purification works covering the eastern portion of Gauteng.

APPENDIX E – WARD REPORTING N/A

APPENDIX F – WARD INFORMATION: N/A

APPENDIX G – RECOMMENDATIONS OF THE MUNICIPAL AUDIT COMMITTEE YEAR N/A

APPENDIX H – LONG TERM CONTRACTS AND PUBLIC PRIVATE PARTNERSHIPS

Erwat has not entered into any Public Private Partnerships. There is three long term contracts in place namely the agreements with the members of Erwat, namely Ekurhuleni Metropolitan Municipality, City of Johannesburg and Lesedi Local Municipality which was entered into for the purification of waste water received from said members.

APPENDIX I – MUNICIPAL ENTITY PERFORMANCE SCHEDULE

ASSESSMENT OF ANNUAL SDBIP PERFORMANCE

LEVEL OF PLANNING	PLANNING STATEMENTS	INDICATORS	ANNUAL TARGET 2015/2016	YEAR TO DATE PERFORMANCE 2015/2016	COMMENTS
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Output	Internal sample analysis	Number of critical analysis finalised on the final effluent samples of the 19 ERWAT waste water treatment plants	55936	41716	Not achieved
Output	Increase Revenue Generated	Rand Value of the revenue generated	R120m	R78m	Not achieved
Output	Increase ERWAT Wastewater Treatment Plants (WWTP) treatment capacity and improve process efficiency through infrastructure development projects	Expenditure on Infrastructure Development Capital Projects to increase capacity and improve process efficiency	R326m	R94.9m	Not achieved

VOLUME II

APPENDIX J – DISCLOSURES OF FINANCIAL INTERESTS

There is no financial interests to be disclosed in the year under review

APPENDIX K: REVENUE COLLECTION PERFORMANCE BY SOURCE

Revenue Collection Performance by Source						
Description	Ref	2014/15	Current year 2015/16		Year 2015/16 Variance	
		Actual	Original Budget	Adjusted Budget	Actual	Adjustments Budget
R thousands						%
Revenue By Source	1					
Service charges - sanitation revenue		525 601	575 533	575 533	575 533	100%
Interest earned - external investments		4 536	4 720	4 720	13 048	276%
Dividends received		91	70	70	150	214%
Other revenue		71 412	125 354	125 354	109 816	88%
Total Revenue (excluding capital transfers and contributions)		601 640	705 677	705 677	698 547	99%

APPENDIX L: CONDITIONAL GRANTS RECEIVED EXCLUDING MIG: N/A

APPENDIX M. CAPITAL EXPENDITURE – NEW & UPGRADE/RENEWAL PROGRAMMES

R '000							
Description	2014/2015	2015/2016			Planned Capital expenditure		
	Actual	Original Budget	Adjustment Budget	Actual Expenditure	2016/2017	2017/2018	2018/2019
Capital expenditure by Asset Class							
Infrastructure - Total	–	100 000		5 711	60 000	100 000	30 000
Infrastructure: Sanitation - Total	–	100 000		5 711	60 000	100 000	30 000
Sewerage purification		100 000	-	5 711	60 000	100 000	30 000
Total Capital Expenditure on new assets	–	100 000		5 711	60 000	100 000	30 000
Capital Expenditure - Upgrade/Renewal Programme^a							
R '000							
Description	2014/2015	2015/2016			Planned Capital expenditure		
	Actual	Original Budget	Adjustment Budget	Actual Expenditure	2016/2017	2017/2018	2018/2019
Capital expenditure by Asset Class							
Infrastructure - Total	222 034	141 200	-	115 017	130 200	193 300	288 700
Infrastructure: Sanitation - Total	222 034	141 200	-	115 017	130 200	193 300	288 700
Sewerage purification	222 034	141 200	-	115 017	130 200	193 300	288 700
Table continued next page							
Table continued from previous page							
Capital Expenditure - Upgrade/Renewal Programme^a							
R '000							
Description	2014/2015	2015/2016			Planned Capital expenditure		
	Actual	Original Budget	Adjustment Budget	Actual Expenditure	2016/2017	2017/2018	2018/2019
Capital expenditure by Asset Class							
Other assets	84 987	150 068	-	121 172	141 236	243 550	188 541
General vehicles	1 556	14 905	-	13 292	4 980	4 530	4 230
Plant & equipment	81 000	128 175	-	101 329	128 206	233 383	178 000
Computers - hardware/equipment	1 182	4 883	-	4 158	6 018	4 843	4 311
Furniture and other office equipment	1 249	2 105	-	2 393	2 032	994	2 000
Intangibles	750	6 099	-	443	4 883	4 627	2 000
Computers - software & programming	750	6 099	-	443	4 883	4 627	2 000
Total Capital Expenditure on renewal of existing assets	307 771	297 367	-	236 632	276 319	441 477	478 241
Total Capital Expenditure on new and renewal of existing assets	307 771	397 367	-	242 343	336 319	541 477	509 241

APPENDIX R – DECLARATION OF LOANS AND GRANTS MADE BY THE ENTITY

There were no Loans or Grants made by the entity in 2015/16

APPENDIX S – NATIONAL AND PROVINCIAL OUTCOMES FOR LOCAL GOVERNMENT N/A

VOLUME II: ANNUAL FINANCIAL STATEMENTS

Provide the Annual Financial Statements (AFS) to the respective financial year as submitted to the Auditor-General. The completed AFS will be Volume II of the Annual Report.

VOLUME III

VOLUME III: AUDITOR GENERAL REPORT

